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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Economy Struggles Along . . .

One by one, the statistics coming out of Washington continue to confirm the stubbornly depressed state of the economy. Not only have signs of the long-awaited recovery vanished from the horizon, but the recession seems to be deepening. Concerned with climbing unemployment and uncertain about the future, consumers are keeping a tight rein on their purse strings. As a result, overall business sales resumed their protracted slide in the third quarter, causing inventories to swell, despite drastic cuts in factory production. Confirming this weakness, the inflation adjusted Gross National Product expanded by a scant 0.8 per cent at a seasonally adjusted annual rate in the third quarter compared with the second, failing to meet the Commerce Department's earlier prediction of a 1.5 per cent rise.

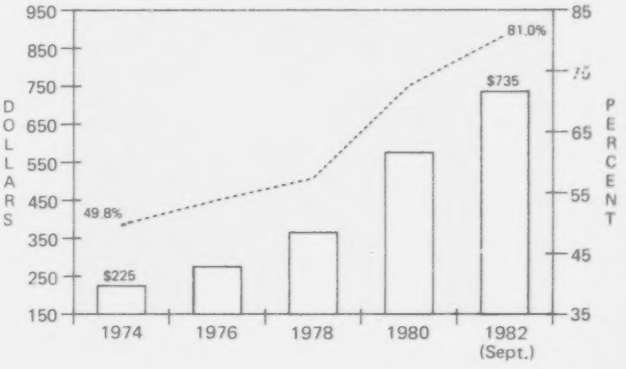
But the pace of business is even slower than this small advance in the "real" GNP indicates. This is because there was a $0.7 billion increase at an annual rate in business inventories during the third quarter—the first increase in over six months—in sharp contrast to the second quarter's $4.4 billion runoff. Increases in inventory, for whatever reason, add to the GNP but this time can hardly be considered a sign of strength, since real sales to final consumers fell at an annual rate of 0.6 per cent.

The largest accumulation of inventories occurred at the wholesale and retail levels. Earlier in the quarter, merchants were preparing for a seasonal upturn in sales, which usually takes place in late summer and early fall, but as demand fell below expectations, stocks soared. On the other hand, manufacturers were able to respond quickly by slowing factory production—especially in the durable goods industries—and their inventories were pared down. Substantial chunks of operating capacity were idled and utilization dropped to 69.1 per cent of capacity in September, falling barely short of the postwar low of 69 per cent reached in the depths of the 1973-75 recession.

. . . But Declining Interest Rates . . .

Importantly, the two most powerful locomotives which alone could pull the economy out of recession and, conversely, without which a sustainable recovery is unlikely—the automobile and housing industries—remain in the doldrums. But while the auto industry is having its problems, including high-sticker prices and buyer perception of poor quality, there is nothing wrong with the housing industry that a substantial break in interest rates could not cure. And there may be hope. Some consumer loan rates have begun to decline with further retreats likely—at least in the short term.

AVERAGE MONTHLY MORTGAGE PAYMENT (BAR) VS. % OF HOUSEHOLDS THAT CANNOT AFFORD TO BUY A NEW HOME (DOT)



The impact of swings in interest rates on people's ability to buy is greater for home purchases than for any other outlay an average consumer makes in his or her lifetime. Rates on conventional 25-year mortgages averaged about 15¾ per cent in September, down from this year's peak of 17 per cent reached in March. Even with this small drop, the buyer of a median priced home of $73,200, who puts 25 per cent of the purchase price as a down payment, would save $55 per month. Taking into account the rule of thumb that a household should not spend more than one-quarter of its monthly gross income for servicing its mortgage, 19 per cent of first-time homebuyers would be able to afford to buy a home. Only two months ago, when the mortgage interest rate was 16½ per cent, about 85 per cent of U.S. families were excluded from the market. The saving is even greater for those who qualify for such government backed mortgages as VA and FHA, which currently have a ceiling rate set

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at 12½ per cent—the lowest in over two years.

. . . Could Easily Rescue Housing

Nevertheless, the current level of interest rates still prevents most families—especially those who have never owned a home before—from buying. To compare, in 1974, for example, half of the families in the nation were able to afford to buy a home (see chart on page 1). At today's home prices, the interest rate would have to fall to eight per cent for the same proportion to qualify.

Interestingly, over this eight-year period, the median purchase price of a new home rose roughly at the same pace as median family income. However, the estimated monthly payment rose twice as fast, due to the jump in finance charges—especially over the past three years. Finally, though it may be believed in some quarters that people are spending increasingly larger proportions of income to service their mortgages, the United States League of Savings Associations reports that the proportion of homebuyers spending more than 25 per cent of their gross income on mortgage payments has declined from almost 46 per cent in 1979 to 44.9 per cent last year. In 1981, the median monthly payment represented less than 20 per cent of the median income of all who bought homes in that year.

Last month's rise in housing starts was due to factors other than lower mortgage rates in the marketplace. New construction of single family

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/13/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.336	– 1.413	+ 8.352
Loans to Depository Inst.	.360	– .244	– .750
Float	2.323	+ .646	– .686
Total Reserve Bank Credit	152.593	– 1.280	+ 7.317
Treasury Deposits with Federal Reserve Banks	2.819	– 1.885	– .138
Currency Outside Banks	133.017	+ 1.443	+ 9.306
Member Bank Reserves:			
Required	38.883	– .848	– .855
Excess (Deficiency)	.515	– .063	+ .152
Total Reserves Held	39.398	– .911	– .703
Net Free Reserves	.225	+ .147	+ .814
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.939	+ 2.156	+ 9.776
Monetary Aggregates†		**% Change Since Three Months Ago***	**Year Ago**
M1	468.3	+ 11.9‡	+ 7.3‡
M2 (September '82)	1,954.8	+ 9.8	+ 9.9
M3 (September '82)	2,363.1	+ 1.7	+ 10.5
L (June '82)	2,797.8	+ [illegible].0	+ 11.6

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 10/22/82	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.50%	7.95%	8.30%
* Federal Agencies	7.05	8.80	10.20
* Project Notes—Taxfree (46% Taxable Equivalent)	7.50	8.33	9.26
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.95	9.10	9.95

‡Finance Company Paper—Prime

5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.38
60- 89 days	8.38
90-179 days	8.25
180-239 days	8.25
240-270 days	8.25

‡* Bankers' Acceptances

Nov.	8.65%
Dec.	8.65
Jan.	8.65
Feb.	8.75
Mar.	8.85
Apr.	8.65

‡Industrial Paper—Prime

30- 89 days	8.63%
90-120 days	8.63

†Federal Funds Effective Rate 9.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'82n	$ 3,091	$ 3,045	$ 2,981
Gross National Product (1972 Dollars)*	3rd Q'82n	$ 1,481	$ 1,478	$ 1,510
Percent Change, Annual Rate	3rd Q'82n	0.8	2.1	2.2
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Sep '82	– 1.2%	7.2%	2.4%
Civilian Employment (Thousands of Persons)†	Sep '82	99,720	99,839	100,258
Unemployment as % of Civilian Labor Force†	Sep '82	10.1%	9.8%	7.6%
Personal Income*	Sep '82n	$ 2,605	$ 2,597	$ 2,479
Leading Indicators Composite Index (1967=100)†	Aug '82	128.6	129.8	134.1
Industrial Production Index (1967=100)†	Sep '82	137.3	138.1	151.6
Net Change in Consumer Installment Credit†	Aug '82	$ 0.07	$ 0.57	$ 2.43
U.S. Merchandise Trade Balance†	Aug '82	–$ 7.08	–$ 2.42	–$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Sep '82n	1,146	1,002	899
New Construction Expenditures*	Aug '82	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories†	Aug '82	$ 515.6	$ 513.4	$ 510.1
Total Business Sales†	Aug '82	$ 339.1	$ 344.6	$ 354.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

homes barely budged from the month-earlier level, but starts of multi-family dwellings increased by 27 per cent. This occurred because builders depending on federal subsidies had to start construction to meet the October 1 deadline to benefit from such incentives as eventually being able to charge higher rents. As a result, starts of these government-backed buildings climbed to 30,000 in September, three times the rate posted in August.

Autos Have Other Problems

While swings in interest rates have a profound impact on home purchases, their influence on monthly auto payments is very small. For example, each one percentage point drop in the finance charge for a buyer of a median-priced automobile ($9,750) saves only $3.62 per month.

But while the auto industry continues to be plagued by its well-known image, quality and pricing problems, the inability to get car sales up goes beyond that. It seems that in its struggle to compete with the Japanese, Detroit has been emphasizing mostly fuel economy and workmanship in its marketing efforts, leaving out the age-old reason why people bought new cars: to have fun! Apparently, people still want to have a "love affair" with the automobile, witness the success of the Camaros, Firebirds and Chrysler convertibles, despite their above average price!

Another deterrent to sales may be that manufacturers no longer wait until late September to

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/6/82)	147,998	– 202	+16,970
New York City (10/6/82)	37,122	– 35	+ 4,716
Commercial Paper (10/6/82)	173,630	+ 1,180	+10,434

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/6/82)	220,026	+ 2,711	+31,605
New York City (10/6/82)	62,685	+ 1,463	+ 7,813

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/6/82)	502,562	+ 3,000	+42,173
New York City (10/6/82)	120,066	+ 540	+10,128

Financial Markets

	Friday 10/22/82	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.90%	+ .60	– 5.85
180-Day Bills†	8.60	+ .47	– 6.17
Longest Bills†	9.20	+ .40	– 5.88
Recent Issues:			
9 3/4s 10/31/84 (When Issued)	9.98	NA	
12 1/4s 9/30/86	10.61	+ .20	
13 3/4s 5/15/92	11.34	+ .20	
14s 11/15/11	11.01	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (10/21/82)	9.69%	+ .44	– 3.30
Blue List Total ($ Million)	$1,420	+$ 334	+ $ 627
30-Day Visible Supply ($ Million)	$4,338	+$ 871	+ $2,143
Total	$5,758	+$1,205	+ $2,770
Corporates:			
Moody's Aa Composite (10/21/82)	12.79%	– .04	– 3.05
30-Day Visible Supply ($ Million) ‡	$1,260	+$ 50	NA
Stocks:			
Dow-Jones Averages:			
Industrials	1031.46	+ 38.36	+ 193.47
Transportation	439.37	+ 37.39	+ 72.21
Utilities	121.54	+ .28	+ 18.35
65 Stocks	404.18	+ 18.91	+ 70.92
Standard and Poor's 500 Stocks	138.83	+ 5.26	+ 20.23
N.Y.S.E. Composite Index	79.68	+ 2.94	+ 10.85
N.Y.S.E. Avg. Daily Vol. for Week (000's)	101,540	–17,102	+ 56,612

* 46% Taxable equivalent 17.94%.
† Bond equivalent.
‡ Series redefined: Historical data not available.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/22/82	Week Ago
Overnight	9.50%	9.63%
1 month	9.56	10.00
3 month	9.75	10.31
6 month	10.00	10.44
1 year	10.38	10.81

EURODOLLAR BONDS

Average Yield		
Medium Term (5 to 7 yrs.)	12.70%	12.90%
Long Term (7 to 15 yrs.)	12.65	12.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/22/82)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02043	48.95
Canada	.8153	1.2266
Denmark	.1125	8.8925
France	.1401	7.1400
Germany	.3960	2.5253
Italy	.0006929	1443.20
Japan	.003676	272.00
Mexico	.009217	108.50
Netherlands	.3635	2.7510
Switzerland	.4607	2.1708
U.K.	1.6980	.5889

unveil new models. A new sell-when-they-are-ready approach seems to have replaced the fall introduction as automakers rush to bring competitive products to the market. Lost, however, is the traditional fanfare and excitement as people no longer have the inducement to rush to the showrooms to look at the new models. What is more, there was even less to cheer about this September. With only a few improvements, most of the '83 introductions were carryovers from the 1982 models, looking much like their predecessors.

But even within the depressed automobile industry there are some bright spots. Sales of such recreational vehicles as motor homes and camping trailers are up by eight per cent so far this year, on top of a 32 per cent year-over-year jump in 1981. Furthermore, sales of light trucks which include vans, mini pickup trucks and sports utility vehicles were 13.5 per cent above last year's level for the first nine months of the year; in September alone they soared 30 per cent, year-over-year!

The most important factors behind this improvement are the greater availability and lower price of gasoline, as these vehicles are not very fuel-efficient despite recent improvements. What is more, aiding sales of RVs is the renewed interest in driving vacations. According to the U.S. Travel Data Center, Americans seem to be taking longer vacation trips. In a survey taken earlier this year, they expected to drive an average of some 1,000 miles this summer, up from 860 miles last year.

In addition to improved fuel efficiency, sales of light trucks grew as a result of an introduction of numerous new domestic products. These are compact mini pickup trucks, which people generally buy for personal use as a substitute for a car. Most of the other categories of light trucks have also been doing well. In addition to the practical aspect of owning them, people buy them for fun, as they can be driven off the road—in mountains and on beaches, for example.

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